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C O N F I D E N T I A L HARARE 000295

SIPDIS

AF/S FOR BNEULING

EB/IFD FOR FCHISHOLM

NSC FOR SENIOR AFRICA DIRECTOR C. COURVELLE, D. TEITELBAUM

TREASURY FOR OREN WYCHE-SHAW

DEPT PLEASE PASS TO ALL AFRICAN DIPLOMATIC POSTS

ALSO PASS TO USAID FOR MARJORIE COPSON

E.O. 12958: DECL: 12/31/2009

TAGS: [ETRD](#) [PGOV](#) [ZI](#) [ECON](#) [EINV](#)

SUBJECT: TYCO TRUCK SALES OFF 90 PERCENT IN ZIMBABWE

Classified By: Ambassador Christopher Dell for reason 1.4 b/d

11. (C) Summary: The head of U.S. firm Tyco,s local subsidiary told Econoff on February 10 that truck sales plummeted 90 percent from 1999 to 2004. On a brighter note, Tyco now sells three times as many parts as in 1999, since transport firms are trying to lengthen the lifespan of each vehicle. Still, the Tyco representative asserted that the country's aging truck fleet makes Zimbabwe's roads increasingly hazardous. End Summary.

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Currency Auctions a "Joke;" Sales Plummet  
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12. (C) Tyco General Manager John Stuart told us his firm,s local sales of new and used trucks in Zimbabwe peaked at 300 in 1999, then dropped in each of the subsequent four years. Sales fell to a mere 24 in 2004. Stuart blamed the most recent drop on the Reserve Bank (RBZ)'s currency auctions and higher taxes. At the auctions, which RBZ Governor Gideon Gono introduced in January 2004, Stuart said too many buyers are chasing too little foreign exchange. Tyco's potential truck buyers came up empty repeatedly in a process Stuart disparaged as a "joke."

13. (C) Stuart said Gono's decision to peg import duties to the auction rather than the former official rate also discouraged vehicle imports by raising the end-price of the trucks, as duty on the trucks rose approximately 80-fold on December 1, 2003. Finally, Gono tacked on a new 15-percent value-added tax (VAT) to vehicle sales in January 2004. As Tyco,s customers tried to come to terms with these new rules and tariffs, the company did not sell a single truck during 2004's first six months, according to Stuart.

14. (C) By July 2004, however, Stuart recalls that many of his clients gave up on RBZ currency auctions and became accustomed to acquiring foreign exchange through the parallel market. Sales picked up and averaged six trucks per month for 2004's second half. Stuart said he knows of cases where competing dealers that sell non-Tyco trucks have bribed customs officials in order to escape payment of duty and VAT. Dealers that resort to these measures often avoid long delays for incoming new trucks at border stations, which in Tyco's case are often six weeks, Stuart said.

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Unsafe Roadways  
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15. (C) While sales of imported new and used trucks have suffered, Stuart noted that Tyco's parts sales are booming. The company turned over its parts stock three times in 1999, but eight times in 2004. Stuart said transport firms are apparently using older and older trucks, which is making Zimbabwe's roads more dangerous. Stuart said the country's Vehicle Inspection Department no longer spot-checks trucks for safety compliance and only requires each transporter bring its fleet to inspection points once each year. The Tyco general manager knows of instances where truckers swapped parts among vehicles to obtain annual certification for the largest number of trucks.

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Comment  
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16. (C) As Tyco's case demonstrates, the RBZ,s managed and overvalued exchange rate has not only hurt the country,s exporters, who became less competitive during 2004, but also importers, such as Tyco's customers, who are unable to purchase foreign exchange through official RBZ channels. Moreover, when and if these importers brave the parallel

market, they pay a heavy premium and risk GO